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DEPARTMENT OF ENERGY

Status of Carryover Balances in the Energy Conservation Program

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Mr. Chairman and Members of the Subcommittee:

We are here today to participate in this hearing on the level of carryover balances in the Department of Energy's (DOE) Energy Conservation Program. Carryover balances are essentially funds from prior fiscal years that DOE has either not obligated for a specific purpose or has obligated but not spent. While some carryover balances are necessary to transition a program from one fiscal year to the next, we have reported over the last several years that some DOE programs had carryover balances that were larger than necessary and could be potentially available to reduce DOE's budget requests. As you requested, we will discuss the level of carryover balances held by the Energy Conservation Program and the trend of these balances since fiscal year 1997. We will also discuss our methodology for determining the amount of carryover balances that may be available to reduce DOE's budget requests and how it differs from the methodology used by DOE.

In summary, carryover balances within the Energy Conservation Program, have declined by about 11 percent since the beginning of fiscal year 1997 to an estimated $319 million at the beginning of fiscal year 2000. To estimate the amount of balances that potentially could be used to reduce DOE's fiscal year 2000 budget request, we (1) projected the carryover balances for the beginning of the new fiscal year, (2) determined how much of the carryover balance is needed to meet prior commitments that have not been paid, and (3) analyzed the difference between the amount of carryover balance needed to meet prior program commitments and the projected carryover balance to identify potentially excess balances. Based on this methodology, we estimated that about $60 million of the carryover balance of $319 million would be needed at the beginning of fiscal year 2000 to carry out prior financial commitments in the conservation program. Of the remaining $259 million, about $185 million in carryover balances were excluded from this analysis because these funds were associated with grants or cooperative agreements that are often used to provide multiyear funding and are awarded late in the fiscal year. We believe the remaining $74 million is potentially available to reduce DOE's budget request.

In prior years, DOE has disagreed with our methodology. DOE objected to: (1) our use of total obligation authority as the basis for our analysis, (2) our approach for establishing carryover balance goals, (3) the fact that our approach does not identify specific areas where we believed balances

might be available, and (4) using an approach that DOE believed we had criticized them for using in the past.[1]

We believe that our overall approach is valid, as discussed below. For our fiscal year 2000 analysis, however, we worked closely with DOE officials to develop a carryover balance goal that can be used in our approach and that also takes into account all the individual goals DOE has set for components of its program.

Background

The fiscal year 1999 appropriation for the Energy Conservation Program was about $690 million. On the basis of DOE cost estimates for the balance of fiscal year 1999, we project that about $319 million will be carried over at the beginning of fiscal year 2000.

Carryover balances represent funding from prior years' budgets and consist of both unobligated balances and uncosted obligations. Each fiscal year, DOE requests obligation authority from the Congress to meet the costs of running its programs.[2] Once DOE receives this authority, it obligates funds by placing orders or awarding contracts for goods and services that will require payment during the same fiscal year or in the future. Unobligated balances represent the portion of its authority that the Department has not obligated. Uncosted obligations represent the portion of its authority that the Department has obligated for goods and services but for which it has not yet spent funds. In some years, the Congress has reduced DOE's budget request and recommended that the agency use carryover balances in lieu of new funding. It is important to recognize that there is a legitimate rationale for retaining some carryover balances. For example, with grants, the grantees control the expenditure of funds. Consequently, such costs are often slow to be reflected on DOE's accounts because DOE must wait for cost reports from the grantees that lag significantly behind obligation of the funds.

[1]DOE Management: DOE Needs to Improve Its Analysis of Carryover Balances (GAO/RCED-96-57, Apr. 12, 1996).

[2]Some appropriations do not restrict the time in which funds must be obligated but state that the funds are "to remain available until expended." This is generally referred to as "no-year" authority. DOE receives no-year authority for most of its activities.

Some Carryover Balances May Be Potentially Available to Reduce Budget Requests

To assist the Congress in its budget deliberations, since fiscal year 1995, we have made estimates of the potentially available carryover balances that could be used to reduce a portion of DOE's annual budget request that the Congress was considering. At the start of fiscal year 1997, the Energy Conservation Program that is normally funded as part of the annual Interior and Related Agencies Appropriations bill had a carryover balance of $357 million. At the start of fiscal year 2000, we estimate that the Energy Conservation Program will have a carryover balance of about $319 million, a decline of 11 percent from fiscal year 1997. In determining the amount that is potentially available, we adjust these amounts to reflect individual program characteristics that would effect the carryover balance needed to meet unique program requirements. For the fiscal year 2000 analysis, we excluded balances of $185 million that were associated with grants and cooperative agreements because they often provide multiyear funding and are awarded late in the fiscal year.

Using minimum goals for carryover balances of 15 percent of total obligation authority[3], we estimated that the Energy Conservation Program would need a minimum of $60 million to pay for prior years' commitments that had not yet been paid.[4] Thus, we estimate that there would be about $74 in potentially available carryover balances at the beginning of fiscal year 2000 for the Congress to consider as part of its budget deliberations.

These carryover balances represent potentially available funds—the amount of projected carryover balances that exceed a minimum goal for balances needed to meet prior program commitments. Thus, these balances represent a starting point from which to identify the amount that could actually be used to reduce DOE's budget. It should also be noted that

[3]This amount includes the new obligation authority for a fiscal year plus any unobligated balances carried over into that fiscal year. We then adjust this amount to exclude funds for such thing as grants and cooperative agreements. This amount then becomes our base for determining the carryover balance goal. For example, to determine the carryover balance goal for fiscal year 2000, we added the new budget authority for fiscal year 1999 of $692 million and the unobligated carryover balance of $15 million at the end of fiscal year 1998 for a total obligation authority of $707 million. We then reduced this total by the $307 million that was associated with fiscal year 1999 grants and cooperative agreements to obtain a new adjusted total of $400 million. We multiplied the adjusted total by 15 percent to establish a carryover balance goal of $60 million for fiscal year 2000.

[4]We adopted minimum level carryover balance goals based on an approach first developed by DOE's Environmental Management program. In prior years, we allowed 1 month's carryover balance (or 8 percent) for operating funds and 6 months' carryover balance (or 50 percent) for capital equipment funds. However, in fiscal year 1997, operating and capital equipment activities were no longer funded as separate categories. To account for this change, we calculated a new target percentage (12 percent) for calculating carryover balances that would equal the same carryover balance levels as those calculated under the dual percentage method of prior years. For fiscal year 2000, we worked with DOE officials to develop an overall goal that can be used in our approach and that takes into account all of the goals DOE has set for the individual components of its programs. The new goal is 15 percent.

when calculating these balances we did not place any limits on the amount of carryover balances excluded for unique program requirements such as grants and cooperative agreements that often involve multiyear funding. DOE should be able to quantify any other unique program characteristics that would require carryover balances in excess of the goal.

Methodology for Determining the Potentially Available Carryover Balances

Over the last several years, we have assisted the Congress in its budget deliberations by estimating potentially available carryover balances for operating activities for major DOE program areas- -in this case, Energy Conservation. To estimate the amount of balances that potentially could be used to reduce DOE's budget request, we (1) project the carryover balances for the beginning of the new fiscal year, (2) determine how much of the carryover balance is needed to meet prior program commitments that have not been paid, and (3) analyze the difference between the amount of carryover balance needed to meet prior commitments and the projected carryover balance to identify potentially excess balances.

To develop our projected total carryover balances for fiscal year 2000, we used a multistep process. First, we added carryover balances at the beginning of fiscal year 1999 to new funding made available for fiscal year 1999. Second, we subtracted estimated fiscal year 1999 program costs from the total funds available for fiscal year 1999 to arrive at the projected carryover balances for the beginning of fiscal year 2000.

To develop the minimum level carryover balances required to pay prior program commitments, we used goals based on an approach first developed by DOE's Environmental Management program. Their goal was to provide 1 month's carryover balance (or 8 percent) for operating funds and 6 months' carryover balance (or 50 percent) for capital equipment funds. However, beginning in fiscal year 1997, operating and capital equipment activities were no longer funded as separate categories. To account for this change, for our fiscal year 1999 analysis, we calculated a new target percentage goal of 12 percent that equals the carryover balance levels calculated under the dual-percentage method of prior years. For our fiscal year 2000 analysis, we worked with DOE officials to develop an overall goal (15 percent) that can be used in our approach and that takes into account all of the goals DOE has set for the individual components of its programs. We then apply this percentage goal for carryover balances to the total obligation authority to establish the target carryover balance level.

We then compared projected carryover balances to a goal for the target carryover balance level needed to pay for prior program commitments. The resulting difference represented the amount of potentially available carryover balances for that fiscal year. In analyzing the differences, we adjusted the goals, where possible, to reflect individual programs' characteristics that would affect the amount of carryover balances needed to meet unique program requirements. For example, grants were not included in the analysis because grants often provide multiyear funding and are awarded late in the fiscal year.

DOE Concerns About Our Methods for Analyzing Carryover Balances

In prior years, DOE has disagreed with our methodology. DOE objected to: (1) our use of total obligation authority as the basis for our analysis, (2) our approach for establishing carryover balance goals, (3) the fact that our approach does not identify specific areas where we believed balances might be available, and (4) using an approach that DOE believed we had criticized them for using in the past.[5]

Overall, we continue to believe that our methodology is valid. The key difference between our approach and DOE's is that we apply the goals to DOE's total obligation authority while DOE chooses to apply the goals to what it defines as the total available to cost.[6] Applying the goals to DOE's total obligation authority—essentially the funds the Congress has given DOE to spend—gives a stable goal against which to judge DOE's performance. It also accounts for the sometimes-large unobligated balances within DOE programs. Use of DOE's approach assumes that a percentage of the uncosted obligations existing at the beginning of the year would again be carried over for an additional fiscal year. This assumption is inconsistent with the assumption made in developing the goal that uncosted obligations would be needed only for a certain period of time (e.g., 1 month for operating funding) before the balances were costed.

With respect to the goals we use, we have consistently employed the same general goals DOE programs have developed but have adapted them to fit our methodology, which relies on projecting the balances for the coming fiscal year obligations. For our fiscal year 2000 analysis, we worked with DOE officials to develop an overall goal that can be used in our approach

[5]DOE Management: DOE Needs to Improve Its Analysis of Carryover Balances (GAO/RCED-96-57, Apr. 12, 1996).

[6]Total available to cost equals beginning uncosted obligations plus current year obligations.

and that takes into account all of the goals DOE has set for its individual program components.

On the issue of whether we have identified specific areas where balances may be available, our overall approach is to analyze operating funds in order to identify funds that could exceed the amount necessary to carryout program operations. We believe that, as the agency requesting the funds, DOE bears the burden of showing that it has adequately managed its programs and that the Department is not carrying over funds into the upcoming fiscal year that are in excess of those needed to successfully conduct its programs.

DOE is not correct when it states that we are using a methodology similar to the one we criticized them for using. Our April 1996 report recommended that the Department (1) establish carryover balance goals, (2) project carryover balances, and (3) justify the differences between the goals and the projected balances. Because we follow these three steps, we believe our methodology is consistent with our April 1996 recommendation.

Finally, we believe that our methodology provides a conservative approach to identifying potentially available balances that merit further justification to the Congress. In our methodology, we (1) allow a carryover balance equal to 12 to 15 percent of total obligation authority, (2) exclude certain categories of funding like grants and construction funds, and (3) base our estimates on DOE-estimated costs for the current fiscal year. In some years, we have found that DOE overestimated its costs for the fiscal year, resulting in a larger-than-expected carryover balance.

Mr. Chairman, this concludes my prepared remarks, we would be happy to respond to any questions you may have.